



County of Los Angeles
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January 12, 2005

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen 
Chief Administrative Officer

SACRAMENTO UPDATE

Legislative Analyst's Office Overview of the Governor's Proposed Budget

Today, the Legislative Analyst's Office (LAO) released its "Overview of the Governor's Budget." The LAO notes that the Governor's FY 2005-06 Proposed Budget realistically portrays the size of the budget problem, relies on reasonable estimates of caseload, cost and revenues, and contains a significant amount of ongoing savings which would help address the structural deficit. However, as discussed below, the report also indicates that the proposal falls short of fully addressing the State's structural imbalances and warns that some of its budget reform proposals, if adopted, could dramatically reduce the Legislature's ability to establish budget priorities.

In November 2004, the LAO estimated the budget shortfall to be \$6.7 billion in FY 2005-06 and \$10 billion in FY 2006-07. The LAO notes that the variance between its estimate and the Governor's Budget estimate of \$8.6 billion is primarily attributed to lower property tax estimates which would result in added obligations for Proposition 98, and the inclusion of costs associated with the settlement of a lawsuit related to local flooding.

Perhaps the most significant issue noted by the LAO, is that the Governor's Budget contains an estimated \$4.5 billion in ongoing savings which could increase to roughly \$5 billion in FY 2006-07 to help reduce the structural deficit by approximately 50 percent.

In addition, the report points to three areas of concern for consideration by the Legislature:

- The proposed changes could dramatically reduce the Legislature's authority by limiting its discretion over the allocation of budget resources between education and other State programs. In addition, during revenue downturns, the proposal could potentially shift the burden of balancing the budget to non-Proposition 98 programs (such as social services, health, criminal justice) or result in tax increases or higher fees.
- The proposed reforms could also diminish the Legislature's authority to appropriate funds and craft budgets. Under the Governor's proposal to require across-the-board spending reductions to close a budget gap, the Governor would have the authority to determine when a budget is out of balance which could lead to automatic across-the-board reductions to most programs without regard to the impact on individual programs.
- The report also points out that some of the savings included in the budget are subject to considerable risk. In particular, the LAO highlights the fact that the budget continues to assume the sale of a \$765 million pension obligation bond which is currently subject to court challenge and the inclusion of \$408 million in employee compensation savings which are subject to collective bargaining.

The LAO will be updating its revenue projections and is scheduled to release its detailed analysis of the Governor's Budget next month.

The complete report is available on the LAO's website at <http://www.lao.ca.gov>.

Briefing on Medi-Cal Redesign

The California Health and Human Services Agency will be conducting two informational briefings, in Sacramento and Los Angeles, on the Medi-Cal redesign that was announced in the Governor's proposed budget. The redesign proposes to enroll more Medi-Cal beneficiaries into managed care, reform hospital financing, increase beneficiary cost-sharing, modify Medi-Cal dental benefits, and change intake and eligibility administration. The Los Angeles briefing will occur on January 21, 2005 in the Board Hearing Room of the Kenneth Hahn Hall of Administration from 1:00 p.m. to 3:00 p.m.

Hearing on Disability Retirement

The Senate Committee on Government Oversight and the Senate Committee on Public Employment and Retirement have scheduled a joint hearing in Sacramento on January 24, 2005 on the issue of disability retirements among public employees, and to consider ideas to reduce the rate of such retirements. Representatives from my office

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will be present on behalf of the County. Representatives of the California Highway Patrol, the California Public Employees Retirement System, and the California State Association of Counties are also expected to testify.

We will continue to keep you advised.

DEJ:GK
MAL:JF:MR:jb

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 Coalition of County Unions
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